

# Perceptions of Transition and the Crisis in Macedonia

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## Abstract

This paper provides an analysis of people's perceptions about the effects of the transition process and economic crisis in Macedonia, as extrapolated from UNDP surveys from 2008 and 2009 and set in the context of Macedonia's political life. Questions were constructed in a way to compare the current situation with the pre-1989 period in order to show differences in opinions. The results indicate dissatisfaction, especially among young people. Participants blame their dissatisfaction on the economic problems that have occurred during transition. Their expectations had been high in respect of economic efficiency but transition has not brought high employment or quality of life closer to the EU average. In fact, unemployment rates have increased and job security has been lost. The widespread belief that quality of life was better before the period of

economic liberalisation and privatisation is no surprise and subjectively reflects the dissatisfaction with economic and political developments in Macedonia.

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**Keywords:** transition, growth, development, Macedonia

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**JEL classification:** E20, E66, F43, I32, O11

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## 1 Introduction

Twenty years ago, Macedonian politicians began to implement painful reforms in the economic, social and political systems, in a desire to catch up with the developed world and to provide higher living standards for Macedonian citizens. These reforms included price liberalisation, democratisation, opening the country up to foreign competition, as well as privatisation. The population accepted the reforms, albeit with reluctance, as a pathway towards better living conditions, higher business standards and increased economic efficiency in general.

Twenty years after the start of the privatisation process, Macedonians are expressing deep disappointment with the results of transition in general. People mistrust almost all of the government's agencies and institutions. The state dominates virtually every aspect of society and the economy, and in order for private operators to survive, they have to develop very close connections with the ruling political parties or the government. Political reform was the most important part of the transition process. "In some countries, not only the communist party, but also the communist regime was formally outlawed. ...The political parties needed to find another name in order to stay active in political life" (Lavigne, 1999: 43). The hardest change was transforming the political way of thinking, especially in the economy. It remains a problem to this day. This paper examines the results of the transition process in Macedonia twenty years after its initiation. The emphasis is on several aspects: to provide a broad overview of the socio-economic transition process in Macedonia; to address the specific impact of the

crisis; and to explore how the Macedonians, particularly young people, perceive the development of the country and the opportunities now on offer.

The analysis is based on two separate UNDP surveys conducted in 2008 and 2009: “Regional Development, Local Governance and the Quality of Life” (Bartlett et al., 2009) and “Social, Economic, Cultural and Political Exclusion/Inclusion Drivers” (UNDP Macedonia, 2009). The survey data provide basic evidence for analyzing the results of the transition process, primarily the aspects of economic and social exclusion. However, we have to bear in mind that some of the effects might be related to the world economic crisis. To a certain extent, comparisons should be made between Macedonia and its neighbouring countries, middle- and medium-income countries, EU member countries, EU candidate countries as well as those countries which have recently become full EU members.

## 2 Brief Methodological Remarks

This paper focuses on people's perceptions of the effects of the transition process twenty years after it was started in Macedonia. The respondents' feelings and perceptions are analyzed in relation to specific and very delicate social and economic issues, such as the effectiveness of the transition process in the context of the particular political circumstances which followed the dissolution of former Yugoslavia and the dismantling of the socialist political regime.

A large nationally representative survey, comprising 2,700 households across each country, was carried out in November-December 2009 in six countries, Macedonia, Ukraine, Moldova, Serbia, Kazakhstan and Tajikistan. It covered several aspects of exclusion, and is referred to as “Social Exclusion Survey 2009” (UNDP Macedonia, 2009). The survey’s *primary objective* was to provide data on the magnitude and determinants of social exclusion, addressing social exclusion as a phenomenon resulting from inequalities in terms of access to economic resources, education and employment opportunities, access to and quality of social services, social networks, and political, cultural and civic participation.

The survey questionnaire provides data which can legitimately be used as a basis and evidence for the respondents' perceptions regarding the quality of the transition process.

### **3 Catching Up with the Developed World**

All the transition countries from early on in 1989 have tried to find their way to providing better living conditions for their citizens and establishing internal possibilities for sustainable development. Some of them have had to pass through extreme difficulties in attempting to approach the economic and social standards of the developed countries, implementing tough political reforms, sometimes to a background of civil riots or armed revolt.

The logic of development is to generate the conditions for a better life for the majority of the population within an acceptable timeframe. The improvement encompasses social, economic, political and cultural aspects. Alternative development is focused on social and community development and "human flourishing" (Friedman, 1992). According to Bjorn Hettne, development in the modern international sense implies social change in accordance with societal objectives (Pieterse, 2010). The transition process in Macedonia has imposed the logic of open markets and enabled international influence in order to create a competitive economy, which should result in higher efficiency and employability. The need for an economy more open to global markets, especially to the European Union, was clearly and widely accepted.

At the beginning of the transition process the emphasis in all transition countries was put on liberalising prices, tight monetary policy, balanced budgets to stabilize the macroeconomy, and privatisation of state-owned enterprises. The basic targets were companies' efficiency and internal and external profit capability. The expectation was that social and economic conditions would be improved indefinitely for the majority of the population. "These outcomes are strongly dependent on the initial set of institutions that form the starting

point of transition” (Roland, 2000: 98). Most of the transition countries took to serious structural reforms: launching privatisation and dismantling the former state monopolies; setting up a market environment through reform of the banking and financial sector, coupled with tax reform; developing the social safety net to cushion the impact of the austerity measures and the structural transformation; initiating an industrial policy, in order to identify the “winners” and “losers” within industrial activity (restructuring, defining activities in need of support, launching appropriate policies such as subsidies, protective tariffs, environmental issues, etc.) as is described in Lavigne (1999). In Macedonia there was a prevailing opinion that the government should not be involved in any restructuring programme, so new owners, having completed the privatisation process in their companies, were to take on all the necessary reforms at micro-level. The only programme implemented by the government was the so-called restructuring of the fourteen biggest loss-making companies, under close and rigid monitoring by the World Bank.

The catching-up process started with the signing of the Stabilization and Association Agreement between Macedonia and the European Union in 2001, after Macedonia had become a member of the World Trade Association. Macedonia opened its borders to foreign competition. This openness was a prerequisite for the series of obligations and benchmarks essential to meet the basic requirements for full membership of the European Union. Macedonia received candidate status for membership of the European Union in 2005. In October 2009, the European Commission recommended that Macedonia should start the negotiation process for full membership, after fulfilling a certain number of conditions, including resolving the “name issue” with the Republic of Greece. The recommendation was repeated in the European Commission’s report of October 2011 (European Commission, 2011).

## 4 Consequences of the 2008 Crisis

The Republic of Macedonia was one of the poorest republics in former Yugoslavia and today is one of the poorest countries in Europe. GDP per capita in terms of purchasing power parity is about a quarter of the European average. After an exceptionally unfavourable period from 1995 to 1998 and the post-conflict period of 2001-2004, the GDP growth rate in Macedonia started to increase.<sup>1</sup> However, in 2009, as a consequence of the world economic crises, the GDP growth rate turned negative.<sup>2</sup> The consequences of the 2008 crisis were worst in countries with larger pre-crisis credit structures and higher levels of private external debt. The crisis led to a slow-down in reforms, but more or less all the transition countries still generally preserved their reform orientation (European Bank for Reconstruction and Development, 2009).

The global financial crisis had a significant impact on the Macedonian growth rate in 2009. The Macedonian GDP, considered as purchasing power parity per capita, in 2006 reached 28 percent of the purchasing power per capita in the European Union (EU-27), 31 percent of Slovenia's, 54 percent of Croatia's, 76.7 percent of Bulgaria's and 72.5 percent of Romania's. Purchasing power in Macedonia and Turkey was less by about a quarter than the lowest values of the European Union countries (Eurostat, 2008). The latest data on GDP per capita show that Macedonia reached 36 percent of the European average in 2010,<sup>3</sup> which is slightly better than Albania (28 percent), Bosnia and Herzegovina (31 percent) and Serbia (35 percent). That is primarily the result of exceptionally weak growth in the region and the reduced growth in the EU-27 countries over the last two years.

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1 4.6 percent in 2004, 4.4 percent in 2005, 5.0 percent in 2006, 6.1 percent in 2007 and 5.0 percent in 2008 (State Statistical Office, 2011e).

2 -1.1 percent in 2009 and 1.8 percent in 2010. In 2011 the GDP growth remained strong (2.3 percent yoy in the fourth quarter) (State Statistical Office, 2011b, 2011c).

3 It needs to be considered that GDP growth rates of the 27 EU countries were significantly lowered in the crisis period (-4.3 percent in 2009, 1.9 percent in 2010 and 1.6 percent in 2011) (Eurostat, 2011).

There are also extremely high regional differences. Per capita GDP in the capital town Skopje is 50 percent above the national average. This is the result of big differences in investment in infrastructure and in income between the capital and rural areas (European Commission, 2007).

## **5 Inferior Economic Structure or the Lack of a Growth Strategy?**

The Macedonian economy is small with a specific structure, which may explain the lower knock-on effects of the global economic crisis on Macedonia compared to countries with a higher participation in international world trade. Firstly, small economies could not benefit from specialised production, since that production is based on gains through attaining economies of scale. Secondly, business sectors with growing economies of scale are vital if they have guaranteed export demand (Mughal, 2009). However, Macedonia is a relatively small country with an import-dependent economy. At the same time, its exports are highly elastic, depending on current foreign or global economic conditions. Its import demand is relatively inelastic (energy, food), and export capacities (of textiles, and metal products) are limited, non-competitive and highly dependent on global economic conditions. Therefore, in 2009, when the world economic crisis reached a climax, the Macedonian economy demonstrated an exceptionally low decline in comparison to other neighbouring European countries. When the first wave of crisis struck, import was considered necessary to create a new export cycle. When it became obvious that export efforts were in vain due to sharper protection measures introduced by countries which were Macedonia's largest international trading partners, imports also rapidly declined. This reversal had a positive effect on the decline in GDP, and helped slow down the drain on the foreign exchange reserves.

The inadaptability of the domestic economic structure expressed by the trade deficit as a share of GDP (10.1 percent in 1990 and 18.7 percent in 2010;

World Bank, 2011) could be explained by the relatively high contribution of the primary sector in generating GDP (even in comparison with upper middle income countries, among which Macedonia is classified according to World Bank data). Other factors include the high share of traded goods, low capitalization of quoted companies, low participation of high-technology exports in comparison with the developed countries, significantly lower gross domestic savings, and greater numbers of nonperforming bank loans.

Most of these economic problems have a long-term character and there is no possibility of improving the economic structure in the short term, especially without huge foreign direct investments.<sup>4</sup> The high share of the primary sector, coupled with weak labour market performance, and an inadequate and uncompetitive secondary sector, which should be the main employer of the active population, all contribute to large structural unemployment.

The Macedonian authorities felt the influence of the world crisis in the last quarter of 2008 and fully in 2009. It caused a serious decline in the budget earnings which cover social transfers, and had a strong indirect<sup>5</sup> impact on almost all the economic indicators (GDP, deflation, budget deficit, capital investments, export and import). Public earnings dropped, as did capital investments (foreign and domestic, private and public). The unemployment rate became even higher, particularly in export-oriented industries.

The lack of long-term sustainable GDP growth based on investments and increased exports, alongside growth which was based solely on domestic demand (especially demand generated from government agencies based on debts) had a serious economic impact because: (1) government attempts to copy, to a certain extent, some of the economic policies of the more developed countries based on high budgetary deficits, borrowing money on the domestic money market and

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<sup>4</sup> Gross domestic savings are 3-4.5 times lower in comparison with middle income countries and European Union countries.

<sup>5</sup> These were indirect effects because Macedonian banks did not have any investment problems regarding the "toxic assets" of problematic foreign banks. They did not internalise the world financial crisis through banking and insurance businesses. The whole crisis entered Macedonia through the real sector as a consequence of losing export contracts from traditional international trading partners from the developed countries.

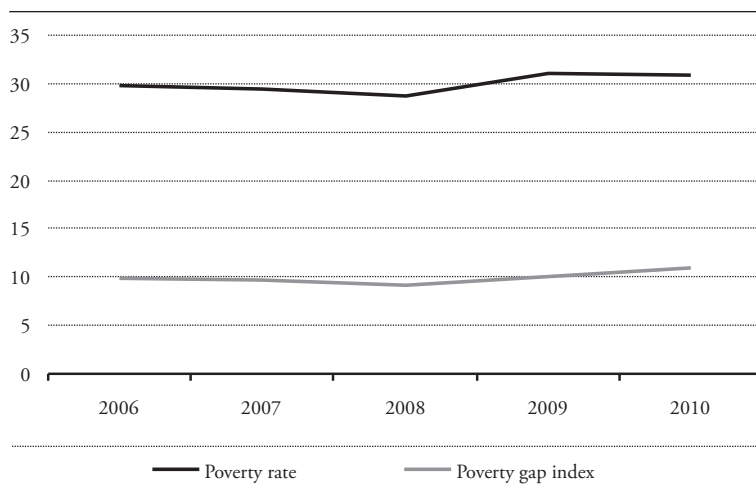


from international financial agencies and banks, resulted in a significant increase in the country's overall level of debt. The idea was to start massive construction activities which could lead to higher GDP growth. This might create greater optimism amongst business people and, in turn, encourage new investments and new job creation. (2) The only result of this policy was a budget deficit, which was followed by a general perception that the whole economy depended on the government (directly or indirectly) – the well known “crowding out” effect. The first and only requirement for transition – higher participation of the private sector in the economy – literally vanished. (3) The government started generating jobs (in government sector and not in the private sector), creating the public perception that being close to the ruling political party could solve most of its problems, including finding jobs. The Macedonian unemployment rate is amongst the highest in Europe (over 31 percent). So, Alan Blinder's “Murphy's Law of Economic Policy” is probably correct: “Economists have the least influence on policy where they know the most and most agree; they have the most influence on policy where they know the least and disagree most vehemently” (Blinder, 1988: 1).

According to the Human Development Index 2009 (UNDP, 2009), Macedonia was ranked 72nd out of 158 countries (above Brazil, Bosnia and Herzegovina and Turkey), in terms of numerous indicators (average life expectancy, adult literacy rate, gross enrolments in school, GDP per capita). The Human Development Index for Macedonia in 2009 was 0.817, which was almost identical with Russia and Albania, but significantly lower than Slovenia (0.917), Croatia (0.850) and Montenegro (0.822). In the Human Development Report 2010 (UNDP, 2010), Macedonia went up four places, but with a lower index (0.701). Macedonia was ranked lower than Croatia (0.767), Bulgaria (0.743), Serbia (0.735), Bosnia and Herzegovina (0.710), but better than Brazil (0.699) and Turkey (0.679), for instance.

The long-term economic problems and the prevailing political logic in the economy had their influence on the quality of life. The poverty rate<sup>6</sup> increased continuously between 1997 and 2002, and stabilised at 30 percent in 2007 (Mughal, 2009). In 2006, the poverty rate was 29.8 percent, 29.4 in 2007, 28.7 in 2008, 31.1 in 2009 and 30.9 in 2010. The poverty gap index was 9.9<sup>7</sup> in 2006, 9.7 in 2007, 9.2 in 2008, 10.1 in 2009 and 10.9 in 2010 (Figure 1).

**Figure 1: Poverty Rate and Poverty Gap Index**



Source: State Statistical Office (2011d).

6 The expenditures concept is used for the calculation of the relative poverty line. According to this concept, all expenditure for food and non-food products and services are taken into account and also the value of consumption from own production. Transfer expenditure such as membership fees, taxes, gifts, repayments and savings are not included in consumption. Also, investments such as buying and capital investment in private houses are not included because they are not part of the existential budget. On the basis of determinate levels of the poverty line, a calculation is made of the percentage of persons whose expenditure is below the level of 70 percent of the median equivalent expenditure (State Statistical Office, 2011c). The Copenhagen definition (United Nations, 1995) states that absolute poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education, and information. It depends not only on income but also on access to services. "Relative poverty" can be defined as having significantly less access to income and wealth than other members of society. This may be directly linked to income inequality. Relative poverty is defined as income below 60 percent of the national median disposable income after social transfers for a comparable household.

7 State Statistical Office (2011a).

Poverty is a significant dimension in quality of life and level of development, and social exclusion is the most prominent indicator of human deprivation. Poor people are often excluded or marginalized in the labour market, or in cultural and civic activities. As might be expected, there is a high correlation between income poverty and social exclusion. However, income poverty is not always a prerequisite for exclusion in other respects. For example, people can have sufficient incomes, but be barred from exercising direct political influence or from participating in social and civic activities. A person with a disability may have sufficient income through social security income supplements, but, on the other hand, could be excluded from the labour market or social, cultural and civic opportunities. Social exclusion, therefore, encompasses areas of human life that people value and that may be neglected by traditional income poverty measures. People may be vulnerable to social exclusion for a variety of reasons, such as age, sickness, disability, poverty, sexual orientation, migrant status, sex, age, religion, race, ethnicity, language, political party affiliation, or location. Social exclusion occurs when people experience multiple and mutually reinforcing deprivations, such as economic exclusion, exclusion from social services and exclusion from cultural opportunities and political participation. Economic exclusion refers to limited access to the labour, financial and housing markets, and to goods and services. This leads not only to poverty, but also to reduced access to services such as education, health care, social insurance, etc.

**Table 1:** *Review of Employment and Unemployment Rates in Selected Countries*

Country	Unemployment				Employment
	2007	2008	2009	2010	2008
Albania	13.5	13.0	13.8	-	46.2
Bulgaria	6.9	5.6	6.8	10.2	50.8
Croatia	9.6	8.4	9.1	11.8	44.4
Romania	6.4	5.8	6.9	7.3	51.4
Serbia	18.1	13.6	-	-	44.4
Slovenia	4.9	4.4	5.9	7.3	56.9
Turkey	10.3	11.0	-	-	41.7
Macedonia	34.9	33.8	32.2	32.0	36.5

Source: UNECE (2011).

Unemployment appears to be a major driving factor for social exclusion in Macedonia (Table 1). Unemployment might be due to the transitional processes, or can be the consequence of the suboptimal economic structure of the Macedonian economy. The unemployed can also be victims of other circumstances, such as the educational structure, tradition or an insufficiently developed financial system (both in terms of the volume and the structure of the financial system).

The liberalisation of local and foreign markets during the transition process leads to greater competition. However, economies which were unprepared suffered financial losses that in turn led to price increases in the short term, as well as a dynamic increase in unemployment rates. Considering that international opening-up was not in doubt for the Macedonian economy, rising unemployment rates were to be expected, as in all other transition countries. "Everywhere in the world, following a sharp drop in sales, employment typically lags behind, and it would have been surprising if state firms in transition economies had behaved differently. At the same time, there was substantial labour hoarding in those firms even pre-transition, and thus scope for substantial improvement in productivity" (Blanchard, 1997: 45). According to the survey data (UNDP Macedonia, 2009),<sup>8</sup> the situation did not seem as favourable as in Central and European countries, indeed quite the contrary.

There has been a sharp increase in the unemployment rate over the last several years, which cannot be the result of transition effects only. Most of the transition countries suffered significant unemployment rate growth. "The decline in aggregate employment has been substantially longer and larger than that of the output. The declines have ranged from 10 percent (in the Czech Republic) to 25 percent (in Bulgaria) of its pre-transition level" (Blanchard, 1997: 46). The Macedonian privatisation process was completed in 2005 when the Privatisation Agency was closed.<sup>9</sup> It is notable that an increased number of job losses happened during a period of major expansion (2007 and 2008), when the entire Macedonian

<sup>8</sup> The survey covering the four spheres of exclusion (economic, social, cultural, political) was carried out in November-December 2009 in six countries (Macedonia, Ukraine, Moldova, Serbia, Kazakhstan, Tajikistan).

<sup>9</sup> The work of the Macedonian Privatisation Agency ended on October 1, 2005.

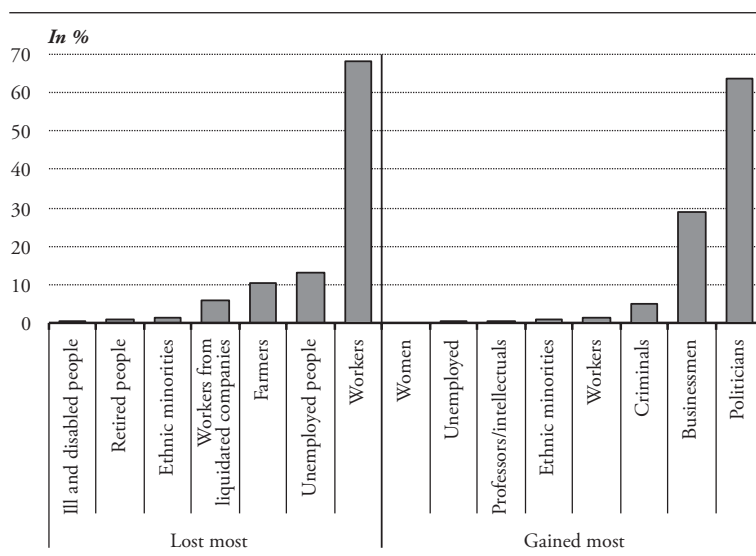
economy showed high growth rates. During 2009, there was no evident change in the course of the unemployment rate: this may have been the result of the significantly recessive market moves of the Macedonian economy. Most of the layoffs in each period between 1989 and 2009 involved people with secondary vocational (48 to 56 percent) and basic school (14 to 18 percent) education (UNDP Macedonia, 2009). The percentage of men and women affected was almost the same in all the analyzed groups and periods. This could lead to the conclusion that some sort of economic structure adjustment was taking place throughout the previous periods, and not only in the early transition period.

## **6 Changing Values and Perceptions during the Transition Process**

During the past 20 transitional years, many changes have occurred. It is now evident that people perceive negative effects as arising from the transition process. The response to the question as to which three categories of people had lost most during the transition was unequivocal (Figure 2). Surprisingly, those perceived as having lost the most were the employed, followed by the unemployed and farmers. By contrast, people considered that those who had gained most were politicians, businessmen and criminals.

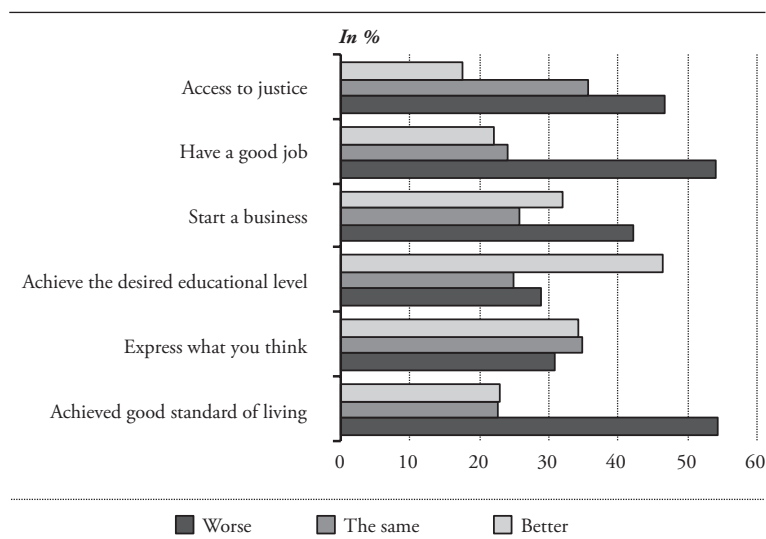
Describing perceptions of the effects of transition can be achieved by analyzing the responses to questions that compare the current situation with the pre-transitional period prior to 1989. In reply to the question whether the possibility of achieving a desired education level was worse, the same or better than prior to 1989, most of the respondents said that it was better. Perceptions of many other aspects affecting the quality of life seem to have become more negative (Figure 3): access to justice and the possibility of finding a better job, starting a new business and achieving a good standard of living are all perceived to be worse than previously.

**Figure 2: Perceptions about Losing and Gaining from Transition**



Source: UNDP Macedonia (2009).

**Figure 3: Opportunities in 1989 Compared to Today**



Source: UNDP Macedonia (2009).

The respondents were fairly evenly divided with respect to freedom of thought. There were more respondents who felt that freedom of thought had remained the same or had improved, than those who thought it had worsened. Also, the majority of respondents believed that the quality of education had improved since 1989, while only a smaller number of them felt that it had worsened.

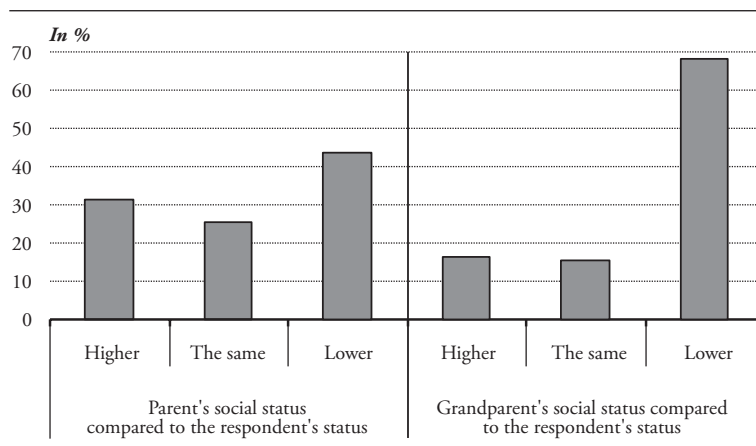
There is a very interesting statistic on starting a new business prior to 1989 and today: more respondents felt that the situation had worsened than that it had improved. This is curious, as there was only very limited entrepreneurship prior to 1989: the private sector hardly existed, except for independent businesses in the craft sector. As regards the question whether the respondent's current job situation had improved, the majority of the respondents answered that it was worse, whereas a minority said that it was better. Finally, responding to the question comparing the judiciary's work to that under the previous regime, most of the respondents were of the opinion it had worsened, or was the same as before. Only a minority felt that the judiciary was doing its job better than before.

Taking all into account, one can conclude that respondents were generally dissatisfied with the results of the transition, mostly in terms of the weakening economy.

The perception of the quality of life (Figure 4) can be judged from the responses to the following question: “Did your parent have a better social position than you?”

Most respondents declared that their parents had a worse social position than them, or the same. A minority of the respondents considered themselves to have a worse social position compared to their parents. A similar result occurred when people were asked about the living standards of their grandparents: again the majority declared that their grandparents were worse off.

**Figure 4:** *Respondent's Social Status Compared to the Status of His/Her Parent/Grandparent*



Source: UNDP Macedonia (2009).

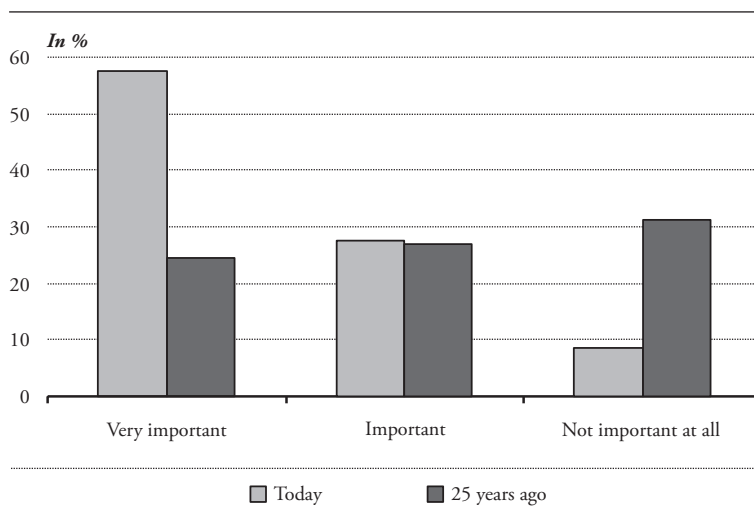
The survey data provide perceptions about the importance of having connections with people with political power in order to be successful (Figure 5). Interestingly, 57.4 percent of the respondents declared that such connections were “extremely important,” whilst 27.7 percent answered that they were “important” (totaling 85.1 percent), while only 8.5 percent stated that they were “not important at all”. It is interesting that having connections with politicians 25 years ago was deemed “extremely important” by just 24.6 percent of respondents, and “important” by 26.8 percent (totaling 51.4 percent).

The opinion that “25 years ago it was not important at all” to have connections with politicians was stated by 31.2 percent of respondents, almost four times as many claiming the same for today. This perception is puzzling because twenty-five years ago, under socialist government, most of the important decisions relating to business, staffing or social issues were made by political figures or organisations. Every important decision was reached by either a politician or the state, yet the respondents living today in a capitalist system with a market-based economy have the impression that state or political figures exert a stronger influence than under the socialist regime. This probably explains why many of



the respondents feel that the easiest way to solve personal problems is through activities inside political parties.

**Figure 5:** *Are Connections Important for Success?*

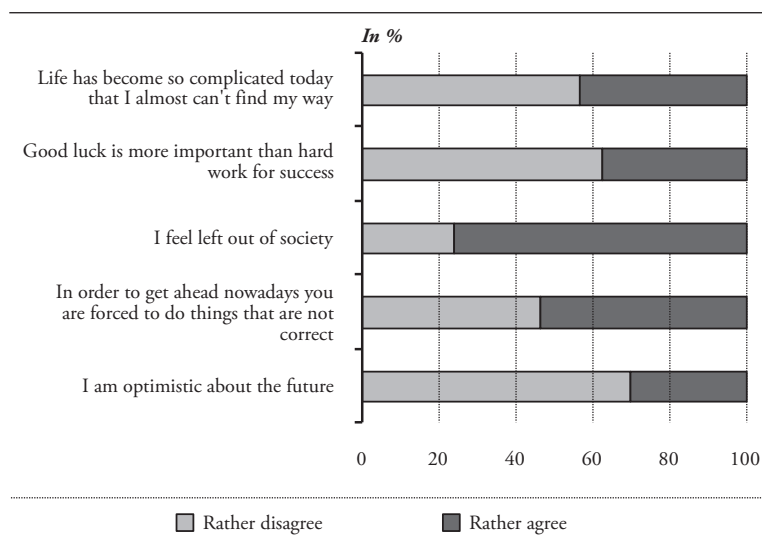


Source: UNDP Macedonia (2009).

It is interesting to analyze the question according to the age groups of the respondents. Young people in particular have the impression that 25 years ago it was not very important to have “good connections”, and an extremely low number of respondents considered connections essential or important in comparison with their importance for success in life today.

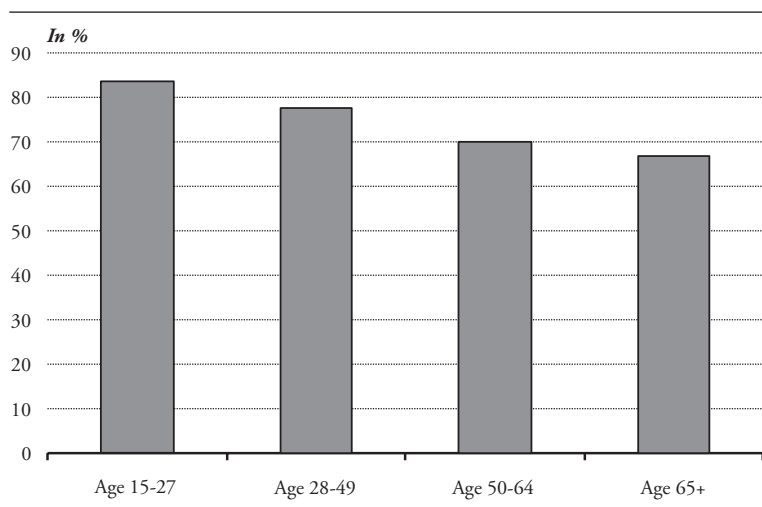
Macedonians also believe that they are being left out of society (72 percent), as Figure 6 indicates. Amongst those who considered themselves marginalised, there is a high percentage of women (55 percent), youth (80 percent) and people with higher levels of education. This indicates a deep economic and social crisis, in which few opportunities are provided even for the most educated people. Figure 7 shows that those who feel most excluded from society are within the 15-27 age group.

**Figure 6:** *Different Positioning According to Certain Perceptions*



Source: UNDP Macedonia (2009).

**Figure 7:** *I Feel Left Out of Society*



Source: UNDP Macedonia (2009).

Young people regard party affiliation as the key barrier to free access to the labour market. The general conclusion is that “if you are not related to a party, you cannot get a job”. “There is a job for everyone, but what is pushing us back is politics, employment with party membership cards”. In this regard, they make a clear distinction between “before” and “now” – “When my father was young, a diploma was required to get a job, and now, only political connections are important”. In consequence, political or party membership is becoming a dominant factor in defining the future for young people. Economic and social motives have been undermined.

Nevertheless, there is awareness that the political criterion for employment carries its own bad consequences – “Political jobs are not secure. As soon as another party comes into power, they will fire you immediately, or they will send you somewhere far away from your home, so you give up yourself”.

The party membership criterion, according to the statements of the participants in the focus group of young unemployed from the rural areas, includes another mechanism for selection – the level of education. Young rural inhabitants, especially members of the Albanian community, believe that the educational structure of the party leadership – the majority of whose members have a lower level of education (mostly middle-level college education) – is an additional handicap for those with university-level education – “The ones with college education have more rights than the ones with university education” (Albanian respondent) (BSC ESTEK Enterprises for Research, Consultancy and Services, 2010: 10).

## 7 Political Context

The results of the UNDP surveys are more logical when seen in the context of Macedonia's current political situation.

From the outset, the government did not want to show overt support of privatisation, because the political leaders of the time considered it an unpopular part of the reforms: if someone in a top political position declared support for such a change, it could prove unpopular. Hence, privatisation was implemented without the basic condition of government commitment. Rather, it was considered that the conditions set by the World Bank and IMF officials were all that needed to be followed. Privatisation was declared to be a process which would improve economic efficiency, increase the population's standard of living, stabilize the economy and help the country catch up with the rest of the developed world. Opposition parties argue that the privatisation process was not transparent, and that it was planned in the face of opposition from the majority of the population. Furthermore, privatisation is widely considered unfair, criminal and designed to satisfy only the richest elements of the population.

Politicians did not place any emphasis on the country's real economic and social problems, neither did they exert themselves to find solutions. Instead, they blamed the "others" (i.e. their political opponents) for the situation. They failed to emphasize the importance of investments and exports based on quality (development strategy) and to apply short-term political logic regarding economic growth modeling. The result was a suboptimal economic structure incapable of countering stronger international competition. The economy was based on imports made possible only by massive remittances from people living abroad. This appears to have an influence like the "Dutch effect" for the Macedonian economy, putting future economic prospects in jeopardy.

Most of the tensions between the different groups in Macedonia are related to political and ethnic differences. The dominant economic polemics regarding the low level of development and the high level of unemployment and poverty

have formed fertile ground for intensive political and ethnic tensions. There is a widespread perception that most of the country's economic problems can only be solved through political party activity, and that the members of the "other" political party are the enemies who are going to put job security in jeopardy, if they win the elections. The question is so crucial that different political opponents take the position of "to be or not to be". This explains why the tensions between the political parties are so deep. The image of political influence in everyday life prevails. It seems that everything depends on politicians, from private commercial and investment decisions, to the news generated in the newspapers and electronic media, or public procurement procedures, which allow the "chosen groups" close to the ruling political party to earn money.

Other tensions, such as that between managers and employees, poor and rich also exist, but they are not so great. This is because of the politically enforced stereotype that people become rich through “criminal privatisation”, using their political or other governmental influence, position or connections to take ownership away from “those who created everything in the companies (i.e. the workers)”. Most people cannot accept the fact that some of those who were previously on the same economic level as themselves are now successful businessmen with a higher standard of living, enjoying significant wealth, social position and power. The easiest way for people to explain the change is to endorse the “truths” that “rich people succeed by criminal activities”, and that “honest people are poor and hard-working”: they created everything in the country, but have been thrown out from their factories and businesses, because politicians and criminals have conspired against them to privatize and take over assets which they neither earned nor deserved.

## 8 Concluding Remarks

There are many prejudices in people's perceptions about the transition outcomes. Most think that transition has been conducted in a criminal, non-transparent way, that the model of transition was not appropriate, and that only chosen individuals close to politicians gained from it. A significant number believe that transition is the source of the present economic problems. The truth is that people are not satisfied with its results, mostly from an economic point of view. The expectation was that economic efficiency would be improved, unemployment would be lowered and the standard of living would move closer to the European Union average. It is now obvious that many people have lost their jobs or live in fear that they could lose their jobs soon, and that they do not have enough money to go away for summer holidays as they did before. They are forced to economise, even on food and necessary goods and services. With the risk of losing one's job ever-present, economic insecurity has become part of normal life.

There is a widespread belief that the transition process is responsible for all the country's evils. No one is prepared to put forward the counter argument that transition is not the reason for the current economic malaise, and that the situation would be the same even if the government had not taken any transitional steps, because of the sub-optimal inherited economic structure and the lack of business capabilities, connections and competence. Most people have the impression that everything was good before, and that transition and privatisation have destroyed everything, transferring much of the social wealth into private hands. Politicians wanting to avoid unpopularity have not defended the transition, allowing prejudice to obscure reality.

Twenty years on, the transition is a very divisive issue. Political and ethnic tensions are frequently evoked as a political instrument for manipulation, especially during elections. Political parties use these tensions as a means of accruing political advantage against their political opponents – the more radical their attitude against political opponents or against the “other” ethnic population, the higher

the political advantage and support they expect from their electorate. Political parties hold the belief that emphasizing and magnifying the differences between people should strengthen their position and increase their chances of winning the elections. The effect is to increase the levels of animosity between different people, not only during election time, but for an extended period between elections. Thus the people of Macedonia have the impression that they live in a period of continual election campaigning. This contributes to social instability, and adds to the problems of economic under-development and the consequent poor standard of living.

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